

Financial Status Report

Prepared by the Finance Department



June 30, 2010

This report summarizes the City of Carlsbad's General Fund revenues and expenditures through June 30, 2010. It compares revenues and expenditures for Fiscal Year 2009-10 and Fiscal Year 2008-09. In addition, the financial status of the Water and Wastewater Enterprises and the Village Project Area of the Redevelopment Agency are included. This report is for internal use only. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting Principles (GAAP).

General Fund Balance

The books have been closed for the fiscal year, and the audit is underway. Interest income is shown on an amortized cost basis, and will be adjusted to market value as required under GAAP for presentation in the Comprehensive Annual Financial Report (CAFR). Revenues totaled \$113.5 million, which was \$3.1 million above recent projections. Expenditures and encumbrances at \$118.1 million were \$17.9 million below the budget for the year. Due to the City of Carlsbad's fiscal discipline, as reflected in the chart, the General Fund's undesignated, unreserved fund balance is projected to grow by \$2.9 million for the year, for a total of just over \$51.2 million.

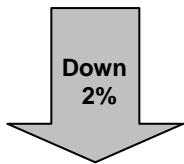
GENERAL FUND FISCAL YEAR 2009-10 UNRESERVED - UNDESIGNATED FUND BALANCE (unaudited)

	Actual on a Budgetary Basis
Unreserved-Undesignated Fund Balance 7/1/2009	\$48,304,604
Revenues/Transfers In*	113,542,162
Other Financing Sources	4,368,348
Expenditures/Encumbrances/Transfers Out	(118,060,664)
Other Financing Uses	(4,229,417)
Other Changes in Reserves and Designations**	7,283,314
Unreserved-Undesignated Fund Balance 6/30/2010	\$51,208,347

* Interest income is shown on an amortized basis, and will be \$182,432 more when adjusted to fair market value as required under GAAP for financial statement reporting.

** Reserves and designations include advances and other miscellaneous reserves.

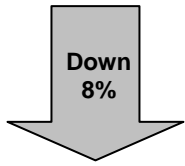
Top General Fund Revenues



Property Taxes (\$49.7 million) – Property taxes reflected a 2% decrease over Fiscal Year 2008-09. According to the County of San Diego Assessor's Office, assessed values in Carlsbad decreased by 1% for Fiscal Year 2009-10. This was the first time since 1995 that the City's assessed values had decreased from year to year. This reflected the continuing countywide slow down in property valuation and new construction, as well as an increase in foreclosures. The assessed values in San Diego County had decreased 2.3% during the same time period. This represented the first time that the countywide assessed value has declined in the past 25 years.

While the 1% decrease in assessed values for the City reflected the assessed value of all of the taxable property in the City, there were several factors that affected the amount of property taxes received for the year:

- Current taxes were down 1% as anticipated due to the decrease in assessed values.
- Aircraft taxes were up by \$215,000 due to one-time delinquent taxes received this fiscal year.
- Payments for previous years' taxes were down by \$313,000.
- Supplemental taxes were down by \$358,000 due to the downturn in new home and existing home sales.
- Unitary taxes are essentially identical to last fiscal year.

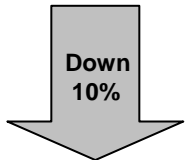


Sales Taxes (\$22.8 million) – For the fiscal year, sales tax revenues were \$1.9 million (or 8%) lower than the same time period in the previous fiscal year. The primary factors in the decrease over the prior fiscal year were the result of a 19.8% drop in sales tax revenues during the second calendar quarter of 2009, a 9.2% drop in sales tax revenues during the third calendar quarter of 2009, a 0.8% drop in sales tax revenues during the fourth calendar quarter of 2009, a 5% increase in sales tax revenues during the first quarter of 2010, the

State Board of Equalization increasing the monthly advance for the second calendar quarter of 2010 versus the same quarter last fiscal year, and a 28% decrease in the triple-flip payments received during the year.

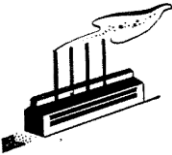
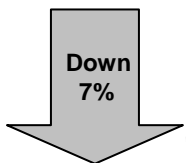
For sales occurring in the first calendar quarter of 2010 (the most recent data available), key gains could be seen in energy sales, service stations and chemical products. During the same period, key declines could be seen in miscellaneous vehicle sales, food processing equipment, electronic equipment and heavy industry. Excluding one-time payments received as the result of audit findings, payments for previous quarters, etc., actual sales tax transactions were down 6.3% for sales occurring in the 12 months ended March 31, 2010 over the same 12-month period last year.

The largest economic segments in the City continue to be new auto sales, restaurants, apparel stores, department stores and miscellaneous retail. Together, they generate 65% of the City's sales tax revenues.



Transient Occupancy Tax (\$11.5 million) – Transient Occupancy Taxes (TOT) for the year reflected a decrease of \$1.3 million, 10% less than the previous year. This decrease was due to softness in the tourism market, as almost all the hotels in the City showed a decline in revenue with lower occupancy rates and discounted room rates. Year-to-date TOT figures represented taxes collected on hotel receipts through the month of June 2010.

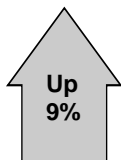
Currently, there are 3,617 hotel rooms and 1,042 vacation rentals (timeshares) in the City. The average occupancy of hotel rooms over the most recent 12 months has been 56%, two percentage points below last year's average of 58%.



Franchise Taxes (\$4.9 million) – Franchise fees are generated from public utility sources such as San Diego Gas & Electric (SDG&E), trash collection franchises, fiber optic antenna systems and cable franchises conducting business within City limits. Year-to-date franchise fees were down \$368,000 over the same period last year due primarily to a decrease in the annual SDG&E payment. This decrease was partially offset by a 14%

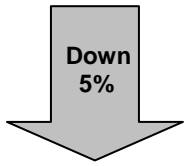
increase in cable television franchise fees (AT&T and Time Warner).

SDG&E pays franchise taxes for the use of public land over which they transport gas and electric services. In addition, SDG&E pays an "in-lieu" franchise tax based on the value of gas and electricity transported through SDG&E lines, but purchased from another source. The majority of "in-lieu" taxes collected is from Cabrillo Power, the operator of the Encina Plant. The "in-lieu" tax was put in place to capture the franchise taxes on gas and electricity that is transported using public lands, but which would not otherwise be included in the calculations for franchise taxes. The franchise taxes paid by SDG&E were down in total by 21%. Net electricity sales increased by 8%, while gas sales decreased by 32%. The "in-lieu" taxes were down by 38% for the year. The decrease in "in-lieu" taxes was a reflection of the amount of utilities transported through SDG&E lines but not purchased from SDG&E, as well as the return of relatively normal natural gas prices (from the spike that occurred during the summer of 2008).



Interdepartmental Charges (\$4.0 million) – Interdepartmental charges were \$315,000, or 9% higher than last year. These charges were generated through engineering services charged to capital projects (up 36% or \$336,000), reimbursed work from other funds (down 72% or \$21,000) and miscellaneous interdepartmental expenses charged to funds outside the General Fund for services performed by departments within the General Fund (no change). The City's

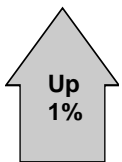
engineers spent more time in the current fiscal year on municipal projects, as reflected in the increase in engineering services revenues.



Income from Investments and Property (\$3.5 million) – For the year, income from investments and property was down \$180,000 compared to the previous fiscal year.

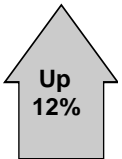
Interest income was down for the year due to the net effects of a 7% increase in the average daily cash balance combined with a 32.3% decrease (a drop in the yield from 3.72% last fiscal year to 2.52% in the current fiscal year) in the average yield on the portfolio for the year. In addition, during July 2009, the Village Project Area of the Redevelopment Agency paid back \$500,000 in interest on their advance from the General Fund. This did not occur in the prior fiscal year.

In July 2009, the General Fund sold two parcels to the Village Project Area of the Redevelopment Agency; property and a building on State Street and property and a building on Oak Street, for property redevelopment, area revitalization, blight elimination and economic development. The gross proceeds from this sale were \$4.36 million, with the City advancing the Redevelopment Agency \$1.86 million to complete the transaction. This one-time revenue was not reflected in the figures presented here, but will be incorporated in the final financial statements for the fiscal year.



Business License Tax (\$3.5 million) – Business license revenues were up \$36,000 compared to Fiscal Year 2008-09. This increase was the result of a previously unlicensed business paying back taxes and penalties. In addition, the overall number of licensed businesses was up over the prior year, contributing to the additional business license revenues.

There are currently 8,739 licensed businesses operating within the City, 179 more than last year's 8,560. The majority of taxed businesses (6,123 businesses) are located in Carlsbad, with 2,622 of these businesses home-based.



Ambulance Fees (\$2.3 million) – The City bills any individual who is transported in one of the City's ambulances. For the fiscal year, receipts from ambulance fees were up 12% or \$239,000 higher than last fiscal year. The number of billable transported patients in Fiscal Year 2009-10 (4,404) versus Fiscal Year 2008-09 (3,966) increased, coupled with a rate increase that went into effect on August 1, 2009, led to the

higher revenues for the year.



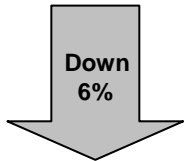
Development-Related Revenues (\$2.2 million) – Development-related revenues, which include building permits, planning fees, building department fees, and engineering fees, reflected an increase for the year. Although development-related revenues were down in Fiscal Year 2008-09 by 50% from Fiscal Year 2007-08, activity over the past couple of quarters showed an upturn in residential development.

Development related fees are paid by developers to cover the cost of reviewing and monitoring development activities such as plan checks and inspections. One of the largest development related revenue sources in the year was engineering plan check fees, which is one of the first fees paid during the initial stages of development. Some of the activity in June included the new Carlsbad high school, the La Posada de Guadalupe farm worker housing and homeless shelter, the new Isis Pharmaceuticals corporate headquarters and a condominium project at Bressi Ranch.

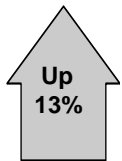
Another source of development related revenue is building permits, which were up 62% as compared to last fiscal year. The increase in building permit revenue was derived from the combination of an increase in the valuation of new construction and an increase in the number of residential permits issued. The year-to-date valuation of new construction was just under \$158.8 million, while it was just under \$104.4 million in the previous fiscal year, a 52%

increase. The pace of construction remained steady in June with 48 permits being issued. In the Southeast Quadrant, 40 permits were issued as part of the Dolcetto and Avellino neighborhoods in La Costa Greens. In the Northwest Quadrant, one single-family permit was issued. Seven of June's permitted units were approved for building in the Northeast Quadrant in the Rockrose neighborhood at Robertson Ranch. For the fiscal year, 339 residential permits were issued, as compared to 107 permits issued during last fiscal year.

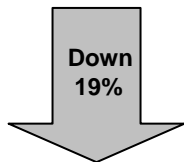
One permit was issued during the month of June for 6,058 square feet of new commercial space for the Daybreak Community Church. Year-to-date there was a combined 126,607 square feet in commercial/industrial permits issued, as compared to 237,935 square feet in Fiscal Year 2009.



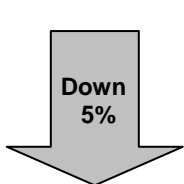
Recreation Fees (\$1.7 million) – Recreation fees are generated through instructional classes, youth and adult sports, the triathlon, and other special events, day trips, various aquatic programs, and lagoon permits. Year-to-date recreation fee revenue was \$99,000 lower than the previous fiscal year. The largest factors in this year's decrease were lower participation in aquatic lessons and youth sports, fewer instructional classes offered, the elimination of premium excursions (day camps), and the contracting out of senior trips. These decreases were partially offset by additional participation in adult sports, the triathlon, special events and the preschool program.



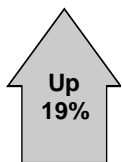
Other Charges or Fees (\$1.1 million) – Other charges and fees are generated through the sale of City documents such as agenda bills, blueprints and copies, general fees collected for false alarms, easements and agreements, weed abatement and kiosk signs, audio/visual rental fees, and general services such as mutual aid response, mall police services, emergency response services, reports, etc. The largest factor that contributed to the year-to-date increase was the receipt from the City of Los Angeles for the Batiquitos Lagoon enhancement project, including reimbursing the City for administrative costs.



Fines and Forfeitures (\$1.1 million) – Fines and forfeitures represent fees collected for code violations, parking citations, overdue fines, and returned checks. The City recognizes revenues when the citizen pays the fine or forfeiture, as opposed to when the fine is imposed. A decrease in moving violation revenues received from the State led to the overall decrease in fines and forfeitures.



Other Intergovernmental Revenues (\$1.0 million) – Other intergovernmental revenues include miscellaneous receipts received from the state or federal governments, as well as local school districts. Included in the \$1 million received this year were state library grants, senior nutrition grant funds, reimbursements for Peace Officer Standards and Training (POST) expenses, state mandated costs reimbursements, state and federal disaster preparedness funds, reimbursements from local school districts, a habitat restoration grant, and law enforcement assistance. A major factor in this year's decrease was the assistance the City received from FHWA last fiscal year (\$75,000) and a reduction in CLSA library funding and reimbursements from school districts.



Other Revenue Sources (\$1.0 million) – Other revenue sources increased by \$166,000 and include revenues received by the City to offset the costs of special studies or projects for developers; reimbursements for damage done to City streets, right-of-ways, and other City-owned property; donations; and refunds of prior year fees. This year's revenues reflected an increase in developer funded studies, a reduction in prior year refunds and a reduction in miscellaneous accounts receivable write-offs.

Transfers In (\$956,000) – Transfers in represent funds transferred from funds outside of the General Fund to the General Fund, to reimburse the fund for expenses incurred on behalf of other funds. The transfers in represented a budgeted transfer in from the General Capital Construction Fund to assist in the funding of the Traffic Signal Maintenance Program and reimbursement from the

Transfer Taxes (\$758,000) – When real property is sold, the County Assessor’s Office charges a transfer tax. The transfer tax rate in San Diego County is \$1.10 per thousand multiplied by the selling price of the property. The City receives 50% of the transfer tax charged for sales within the City of Carlsbad. A recent upturn in home

Other Licenses and Permits (\$752,000) – Other licenses and permits consist of plumbing, electrical, mechanical, right-of-way, grading, conditional land use, lagoon, and other miscellaneous permit revenues. These permits usually increase/decrease along with increases/decreases in development activity.

Expenditures

Total General Fund expenditures, encumbrances and transfers out for Fiscal Year 2009-10 equaled \$118.1 million. This was \$17.9 million less than the budget of \$136 million. These “savings” represent an accumulation of efficiency efforts achieved over the past nine years. Expenditures are shown on a budgetary basis, which means they include all amounts actually spent during the year, plus any money encumbered at the end of the year. A portion of the \$17.9 million unspent money will be carried over to the next fiscal year. These “savings” will be used for one-time projects to improve efficiencies in the City.

The City Council had allocated \$500,000 out of the General Fund budget for unanticipated emergencies or unforeseen program needs. As of June 30, 2010, \$75,318 had been authorized out of the contingency account, as shown in the chart below.

CONTINGENCY ACCOUNT USE OF FUNDS			
EXPLANATION	AMOUNT	DATE	RESOLUTION NUMBER
ADOPTED BUDGET	\$500,000		
USES:			
"In Kind" Service Assistance for the 2009 Carlsbad High School Homecoming Parade	(3,350)	07/14/2009	2009-186
Art Splash Assistance	(33,146)	08/11/2009	2009-207
"In Kind" Service Assistance for the 2009 Carlsbad Christmas Bureau	(2,199)	09/20/2009	2009-266
"In Kind" Service Assistance for the Law Enforcement Special Olympics Torch Run	(974)	03/02/2010	2010-040
Winning Teams Grant for the Aviara Oaks Middle School Odyssey of the Minds Team	(2,000)	05/25/2010	2010-123
Art Splash Assistance	<u>(33,649)</u>	05/25/2010	2010-129
TOTAL USES	<u>(75,318)</u>		
AVAILABLE BALANCE	<u><u>\$424,682</u></u>		

Detailed schedules of General Fund revenues and expenditures are provided on the following pages.

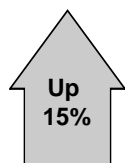
**GENERAL FUND
REVENUE COMPARISON**

	ESTIMATED REVENUE 2009-10	ACTUAL REVENUE 2008-09	ACTUAL REVENUE 2009-10	ACTUAL 2009-10 COMPARED TO ACTUAL 2008-09	
				DIFFERENCE	%
TAXES					
PROPERTY TAX	\$ 49,551,000	\$50,438,865	\$49,694,554	(\$744,311)	-1.5%
SALES TAX	22,059,000	24,764,881	22,819,426	(1,945,455)	-7.9%
TRANSIENT TAX	11,617,000	12,752,422	11,490,488	(1,261,934)	-9.9%
FRANCHISE TAX	4,885,000	5,274,094	4,906,139	(367,955)	-7.0%
BUSINESS LICENSE TAX	3,391,000	3,421,605	3,457,779	36,174	1.1%
TRANSFER TAX	500,000	621,432	757,632	136,200	21.9%
TOTAL TAXES	92,003,000	97,273,299	93,126,018	(4,147,281)	-4.3%
INTERGOVERNMENTAL					
VEHICLE LICENSE FEES	300,000	353,406	308,984	(44,422)	-12.6%
HOMEOWNERS EXEMPTIONS	378,000	375,653	376,145	492	0.1%
OTHER	664,000	1,092,203	1,038,750	(53,453)	-4.9%
TOTAL INTERGOVERNMENTAL	1,342,000	1,821,262	1,723,879	(97,383)	-5.3%
LICENSES AND PERMITS					
BUILDING PERMITS	575,000	450,180	731,260	281,080	62.4%
OTHER LICENSES & PERMITS	685,000	572,157	752,294	180,137	31.5%
TOTAL LICENSES & PERMITS	1,260,000	1,022,337	1,483,554	461,217	45.1%
CHARGES FOR SERVICES					
PLANNING FEES	350,000	418,687	369,149	(49,538)	-11.8%
BUILDING DEPT. FEES	534,000	378,731	537,682	158,951	42.0%
ENGINEERING FEES	753,000	503,814	587,041	83,227	16.5%
AMBULANCE FEES	2,508,000	2,079,718	2,318,370	238,652	11.5%
RECREATION FEES	1,700,000	1,804,080	1,704,791	(99,289)	-5.5%
OTHER CHARGES OR FEES	917,000	1,007,245	1,133,792	126,547	12.6%
TOTAL CHARGES FOR SERVICES	6,762,000	6,192,275	6,650,825	458,550	7.4%
FINES AND FORFEITURES	1,100,000	1,308,090	1,054,087	(254,003)	-19.4%
INCOME FROM INT & PROPERTY	3,045,000	3,716,201	3,536,121	(180,080)	-4.8%
INTERDEPARTMENTAL CHARGES	3,976,000	3,675,858	3,990,845	314,987	8.6%
OTHER REVENUE SOURCES	379,000	855,677	1,021,178	165,501	19.3%
TRANSFERS IN	600,000	62,485	955,655	893,170	1429.4%
TOTAL GENERAL FUND	110,467,000	115,927,484	113,542,162	(2,385,322)	-2.1%

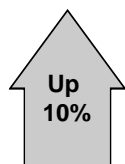
GENERAL FUND EXPENDITURE STATUS BY DEPARTMENT				
		AS OF 06/30/10		
	TOTAL	ACTUAL ON A	UNDER/	% UNDER/
DEPT	BUDGET	BUDGETARY	(OVER)	(OVER)
DESCRIPTION	FY 2009-10	BASIS (b)	BUDGET (c)	BUDGET
POLICY/LEADERSHIP GROUP				
CITY COUNCIL	\$417,588	\$336,573	\$81,015	19.4%
CITY MANAGER	1,794,989	1,736,442	58,547	3.3%
COMMUNICATIONS	1,209,051	1,114,102	94,949	7.9%
CITY CLERK	150,949	112,222	38,727	25.7%
CITY ATTORNEY	1,371,617	1,294,938	76,679	5.6%
CITY TREASURER	208,324	189,897	18,427	8.8%
TOTAL POLICY/LEADERSHIP	5,152,518	4,784,174	368,344	7.1%
ADMINISTRATIVE SERVICES				
ADMINISTRATION	672,638	492,231	180,407	26.8%
ENVIRONMENTAL RESOURCES MGMT.	53,007	514	52,493	99.0%
FINANCE	3,490,506	3,293,978	196,528	5.6%
HUMAN RESOURCES	2,538,376	2,438,500	99,876	3.9%
RECORDS MANAGEMENT	943,060	777,147	165,913	17.6%
GEOGRAPHIC INFORMATION	591,557	537,333	54,224	9.2%
TOTAL ADMINISTRATIVE SERVICES	8,289,144	7,539,703	749,441	9.0%
PUBLIC SAFETY				
POLICE	28,074,963	27,693,656	381,307	1.4%
FIRE	17,844,725	17,172,583	672,142	3.8%
TOTAL PUBLIC SAFETY	45,919,688	44,866,239	1,053,449	2.3%
COMMUNITY DEVELOPMENT				
COMMUNITY DEVELOPMENT ADMIN	2,971,053	2,306,995	664,058	22.4%
HIRING CENTER (c)	88,203	84,835	3,368	3.8%
ECONOMIC DEV/REAL ESTATE MANAGEMENT	175,716	156,845	18,871	10.7%
PLANNING	5,453,898	4,992,215	461,683	8.5%
BUILDING	2,160,533	1,843,008	317,525	14.7%
TOTAL COMMUNITY DEVELOPMENT	10,849,403	9,383,898	1,465,505	13.5%
COMMUNITY SERVICES				
PARK PLANNING & RECREATION	6,222,684	5,224,267	998,417	16.0%
PARKS	6,076,159	6,058,473	17,686	0.3%
SENIOR PROGRAMS	1,014,305	926,241	88,064	8.7%
LIBRARY	10,372,575	9,517,344	855,231	8.2%
CULTURAL ARTS	871,357	821,640	49,717	5.7%
TOTAL COMMUNITY SERVICES	24,557,080	22,547,965	2,009,115	8.2%
PUBLIC WORKS				
PUBLIC WORKS ADMINISTRATION	1,031,281	968,949	62,332	6.0%
ENGINEERING	10,135,567	8,143,196	1,992,371	19.7%
STREETS & TRAFFIC SIGNALS	4,470,448	4,378,069	92,379	2.1%
FACILITIES	4,921,267	4,402,169	519,098	10.5%
TOTAL PUBLIC WORKS	20,558,563	17,892,383	2,666,180	13.0%
NON-DEPARTMENTAL & CONTINGENCY				
OTHER NON-DEPARTMENTAL (a)	10,687,719	1,193,839	9,493,880	88.8%
TRANSFERS OUT	9,555,000	9,852,463	(297,463)	-3.1%
CONTINGENCY	424,682	0	424,682	100.0%
TOTAL NON-DEPT & CONTINGENCY	20,667,401	11,046,302	9,621,099	46.6%
TOTAL GENERAL FUND		\$135,993,797	\$118,060,664	\$17,933,133 13.2%
(a) Other non-departmental includes technology innovation, property tax administration fees, assessment district administration, citywide litigation expenses, and other items not attributed to a specific department.				
(b) Actual expenditures on a budgetary basis include encumbrances and exclude non-budgeted items.				
(c) These "savings" represent an accumulation of efficiency efforts achieved over the past nine years.				

Water Enterprise

WATER OPERATIONS FUND					
JUNE 30, 2010					
	BUDGET	YTD	YTD	CHANGE FROM	PERCENT
	FY 2009-10	06/30/2009	06/30/2010	YTD 2008-09 TO YTD 2009-10	CHANGE
REVENUES					
WATER DELIVERY	31,591,550	20,578,052	24,275,466	3,697,414	18.0%
MISC. SERVICE CHARGES	216,000	246,552	269,869	23,317	9.5%
PROPERTY TAXES	2,995,000	2,889,602	2,823,846	(65,756)	-2.3%
FINES, FORFEITURES & PENALTIES	262,000	263,163	261,326	(1,837)	-0.7%
OTHER REVENUES	414,000	355,899	349,008	(6,891)	-1.9%
TOTAL OPERATING REVENUE	35,478,550	24,333,268	27,979,515	3,646,247	15.0%
EXPENSES					
STAFFING	2,933,921	2,847,348	2,770,142	(77,206)	-2.7%
INTERDEPARTMENTAL SERVICES	2,673,789	2,356,993	2,602,295	245,302	10.4%
PURCHASED WATER	19,222,757	13,022,233	13,529,889	507,656	3.9%
MWD/CWA FIXED CHARGES	3,720,188	2,993,864	3,503,011	509,147	17.0%
OUTSIDE SERVICES/MAINTENANCE	1,347,432	563,335	691,096	127,761	22.7%
DEPRECIATION/REPLACEMENT	3,593,000	3,590,556	3,593,000	2,444	0.1%
CAPITAL OUTLAY	181,369	25,659	230,732	205,073	799.2%
MISCELLANEOUS EXPENSES	2,054,240	839,403	2,056,968	1,217,565	145.1%
TOTAL OPERATING EXPENSES	35,726,696	26,239,391	28,977,133	2,737,742	10.4%
OPERATING INCOME/(LOSS)	(248,146)	(1,906,123)	(997,618)	908,505	47.7%

Revenues

- The increase in water delivery revenues was the net result of a combination of a 14% decrease in the number of water units sold and an average 15.5% increase in water rates charged to our customers (water sales and delivery charges) that went into effect in August 2009. In addition, the CMWD implemented a new tiered rate structure in August 2009 increasing water bills for high-end users.
- The decrease in property taxes was the combination of a decrease in supplemental taxes and assessed values, and an increase in prior year refunds.

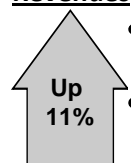
Expenses

- Although the amount of purchased water decreased by 14%, a 17% rate increase from the SDCWA more than offset these savings.
- The water authorities, from which the Enterprise purchases its water, raised their fixed charges by 17% from a year ago.
- The repair of two water main breaks, a joint repair, and legal expenses associated with the new desalination facility accounted for the higher outside services and maintenance.
- The purchase of valve maintenance equipment, utility vacuums, a solar powered GPRS system, new software, equipment associated with the new automated meter reading project and a new truck were reflected in the capital outlay expenses for the year.
- The replacement of old meters with new automated meters (AMR) was reflected in the higher miscellaneous expenses.

A reduction in water sales due to water conservation efforts led to lower operating revenues than originally anticipated. The decrease in revenues was partially offset by lower than anticipated expenses related to the AMR project for the year. The AMR savings will be carried forward into the next fiscal year as the project continues to be implemented. There is a sufficient retained earnings balance to cover this deficit.

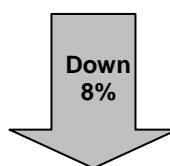
Wastewater Enterprise

WASTEWATER OPERATIONS FUND					
JUNE 30, 2010					
	BUDGET	YTD	YTD	CHANGE FROM	PERCENT
	FY 2009-10	06/30/2009	06/30/2010	YTD 2008-09 TO YTD 2009-10	CHANGE
REVENUES					
CHARGES FOR CURRENT SERVICES	\$ 9,986,534	\$ 8,456,050	\$ 9,513,840	\$ 1,057,790	12.5%
INTEREST	101,000	103,713	55,049	(48,664)	-46.9%
OTHER REVENUES	100,000	183,705	147,302	(36,403)	-19.8%
TOTAL OPERATING REVENUE	10,187,534	8,743,468	9,716,191	972,723	11.1%
EXPENSES					
STAFFING	1,858,182	1,532,467	1,617,429	84,962	5.5%
INTERDEPARTMENTAL SERVICES	1,376,897	1,166,979	1,268,032	101,053	8.7%
ENCINA PLANT SERVICES	3,012,448	3,426,330	3,134,528	(291,802)	-8.5%
OUTSIDE SERVICES/MAINTENANCE	511,201	345,630	333,061	(12,569)	-3.6%
DEPRECIATION/REPLACEMENT	3,252,000	3,210,701	3,021,546	(189,155)	-5.9%
CAPITAL OUTLAY	84,963	475,404	77,072	(398,332)	-83.8%
MISCELLANEOUS EXPENSES	522,429	654,250	511,224	(143,026)	-21.9%
TOTAL OPERATING EXPENSES	10,618,120	10,811,761	9,962,892	(848,869)	-7.9%
OPERATING INCOME/LOSS	\$ (430,586)	\$ (2,068,293)	\$ (246,701)	\$ 1,821,592	88.1%

Revenues

revenues.

- The increase in charges for current services was primarily the result of an additional 2,067 new residential account fees over the past 12 months, as well as a 9% rate increase that went into effect in August 2009.
- Interest revenues decreased due to the combination of an 84% decrease in the average cash balance for the year and a 32.3% decrease in the yield on the Treasurer's portfolio.
- Prior year receipt of the Enterprise's share of miscellaneous Encina revenues impacted prior year other

Expenses

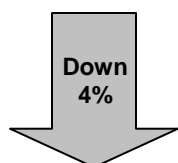
- Increased staffing costs were the result of hiring part-time staff to assist with sewer cleaning per the Enterprise's work plan, as well as the hiring of additional staff approved in the Fiscal Year 2008-09 Budget to implement the Waste Discharge Requirement.
- Additional prior year Encina expenses due to the transition to a new administration building created this year's variance.

- In previous fiscal years, in addition to transferring to the Wastewater Replacement Fund the annual depreciation charges, an additional \$740,000 was also transferred to fund anticipated future replacement costs. This additional amount was not transferred to the Wastewater Replacement Fund in the current fiscal year due to a sufficient cash balance in the Replacement Fund.
- The replacement of a Vactor truck and the purchase of a video inspection van and generator in the previous fiscal year accounted for the reduction in capital outlay expenses.
- A one-time fine in the prior fiscal year for the Buena Vista Lagoon wastewater spill accounted for the large decrease in miscellaneous expenses.

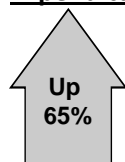
A reduction in wastewater charges paid by non-residential customers (non-residential wastewater charges are based on water usage) due to water conservation efforts led to lower operating revenues than originally anticipated. There is a sufficient retained earning balance to cover this deficit.

Redevelopment Agency

CARLSBAD REDEVELOPMENT AGENCY VILLAGE PROJECT AREA OPERATIONS, DEBT SERVICE AND CAPITAL FUNDS JUNE 30, 2010					
	BUDGET FY 2009-10	YTD 06/30/2009	YTD 06/30/2010	CHANGE FROM YTD 2008-09 TO YTD 2009-10	PERCENT CHANGE
REVENUES					
PROPERTY TAXES	2,642,700	2,836,483	2,823,918	(12,565)	-0.4%
INTEREST	30,000	133,098	46,796	(86,302)	-64.8%
OTHER REVENUES	0	33,058	19,469	(13,589)	-41.1%
TOTAL OPERATING REVENUE	2,672,700	3,002,639	2,890,183	(112,456)	-3.7%
EXPENDITURES					
STAFFING	176,298	172,398	183,318	10,920	6.3%
INTERDEPARTMENTAL SERVICES	77,622	111,550	77,622	(33,928)	-30.4%
RENTALS & LEASES	74,600	86,459	50,831	(35,628)	-41.2%
DEBT EXPENSE	2,840,506	1,612,000	2,840,494	1,228,494	76.2%
CAPITAL OUTLAY	400,000	12,130	55,062	42,932	353.9%
OUTSIDE SERVICES, MAINT & MISC	479,687	106,174	250,553	144,379	136.0%
TOTAL OPERATING EXPENDITURES	4,048,713	2,100,711	3,457,880	1,357,169	64.6%
TOTAL OPERATING REVENUES OVER EXP.	(1,376,013)	901,928	(567,697)	(1,469,625)	-162.9%
PROPERTY ACQUISITION	4,360,000	0	4,360,000	4,360,000	100.0%
TOTAL OPERATING REVENUES OVER EXPENDITURES	(5,736,013)	901,928	(4,927,697)	(5,829,625)	-646.4%

Revenues

- Although assessed values for the year increased by 1.21% in the Village Redevelopment Area, a decrease in supplemental taxes and an increase in prior year refunds offset the change in assessed values.
- Interest revenues decreased due to the combination of a 44% decrease in the average cash balance for the year and a 32.3% decrease in the yield on the Treasurer's portfolio.
- A decrease in rental revenue from the cancellation of the Sowing Sisters lease impacted other revenues.

Expenditures

- A correction made in the previous fiscal year combined with normal staffing increases led to the higher expenditures in the current fiscal year.
- Lower interdepartmental charges were the result of decreased information technology charges.
- The Agency discontinued a parking lot lease during the prior fiscal year as reflected in the reduction in rental and lease expenditures.
- In May 2010, the Agency was required to make an SERAF payment to the state in the amount of \$1.35 million that was not required in the previous fiscal year.
- The capital outlay expenditures were for additional street lights in the Village.
- The costs associated with concrete repairs and the retrofitting of street lights to be more energy efficient, additional signage, and storefront improvement grants were reflected in the higher outside services, maintenance and miscellaneous expenditures.

Higher than expected property taxes and a delay in implementation of the Storefront Grant Program led to a lower than anticipated deficit for the fiscal year. There is a sufficient fund balance to cover this deficit.